

## NEWS RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on City of Ida Grove, Iowa.

The City's receipts totaled \$1,854,144 for the year ended June 30, 2006, a .8 percent decrease from 2005. The receipts included \$641,653 in property tax, \$34,908 from tax increment financing collections, \$703,608 from charges for service, \$271,395 from operating grants, contributions, and restricted interest, \$129,738 from capital grants, contributions, and restricted interest, \$50,381 from unrestricted investment earnings, and \$22,461 from other general receipts.

Disbursements for the year totaled \$2,563,566, an 18 percent increase from the prior year, and included \$383,305 for culture and recreation, \$325,179 for public works, and \$280,524 for public safety. Also, disbursements for business type activities totaled \$1,067,349.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF IDA GROVE

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

CITY OF IDA GROVE  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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CITY OF IDA GROVE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>(Before January, 2006)</u>		
Dennis Ernst	Mayor	January, 2006
Rick Heeren	Council Member	January, 2006
Stephanie Konradi	Council Member	January, 2006
Bill Carnine	Council Member	January, 2008
Tom Peterson	Council Member	January, 2008
Jim Weary	Council Member	January, 2008
<u>(After January, 2006)</u>		
Dennis Ernst	Mayor	January, 2010
Bill Carnine	Council Member	January, 2008
Tom Peterson	Council Member	January, 2008
Jim Weary	Council Member	January, 2008
Paul Bargar	Council Member	January, 2010
Rick Heeren	Council Member	January, 2010
Diane Alborn	Clerk	Indefinite
Sheryl Wonder	Treasurer	Indefinite
Laurel Boerner	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Ida Grove, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ida Grove, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ida Grove, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2006, on our consideration of City of Ida Grove's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, and budgetary comparison information on pages 6 through 11 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Ida Grove's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 7, 2006

*Hunzelman, Putzier & Co.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Ida Grove provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased .2%, or approximately \$3,000, from fiscal 2005 to fiscal 2006.

Disbursements of the City's governmental activities decreased 10.5%, or approximately \$176,000, in fiscal 2006 from fiscal 2005.

The City's total cash basis net assets decreased 41%, or approximately \$709,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$111,000 and the assets of the business type activities decreased by approximately \$598,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.



## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the water, sewer, and garbage services. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (3) the Debt Service Fund, and (4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage, and utility deposit funds. The water, sewer, and garbage funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u> <u>(Expressed in Thousands)</u>		
	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 234	\$ 229
Operating grants, contributions, and restricted interest	271	266
Capital grants, contributions, and restricted interest	130	128
General receipts:		
Property tax	642	579
Tax increment financing	35	100
Unrestricted investment earnings	50	34
Other general receipts	<u>23</u>	<u>45</u>
Total receipts	<u>1,385</u>	<u>1,381</u>
Disbursements:		
Public safety	281	257
Public works	325	296
Health and social services	20	21
Culture and recreation	383	318
General government	188	180
Debt service	91	132
Capital projects	<u>208</u>	<u>467</u>
Total disbursements	<u>1,496</u>	<u>1,671</u>
Decrease in cash basis net assets	(111)	(290)
Cash basis net assets beginning of year	<u>1,133</u>	<u>1,423</u>
Cash basis net assets end of year	<u>\$1,022</u>	<u>\$1,133</u>

The City's total receipts for governmental activities increased by .2%, or \$3,000. The total cost of all programs and services decreased by approximately \$176,000, or 10.5%.

The decrease in disbursements was due primarily to the Siouxland Regional Transit System purchasing a new diesel bus and the cost for fuel was reduced, a bond issue was paid off, and Parents for Parks completed their park playground equipment project.

The cost of all governmental activities this year was \$1.495 million compared to \$1.671 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$861,000 because some of the cost was paid by those directly benefited

## GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

from the programs (\$234,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$401,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$677,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

### Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$178	\$170
Sewer	160	154
Garbage	126	125
Utility deposits	5	4
Capital grants, contributions, and restricted interest	-	5
Total receipts	<u>469</u>	<u>458</u>
Disbursements:		
Water	333	233
Sewer	609	145
Garbage	120	120
Utility deposits	<u>5</u>	<u>3</u>
Total disbursements	<u>1,067</u>	<u>501</u>
Decrease in cash basis net assets	(598)	(43)
Cash basis net assets beginning of year	<u>577</u>	<u>620</u>
Cash basis net assets end of year	<u>\$ (21)</u>	<u>\$577</u>

Total business type activities receipts for the fiscal year were \$469,000 compared to \$458,000 last year.

Total disbursements for the fiscal year increased by 113 % to a total of \$1,067,000. This increase in disbursements was due to increased chemical costs for water treatment because the City is adding a polyphosphate inhibitor for manganese, increased costs for maintenance of machinery and equipment, increased utility costs, chemically treating and repairing Well #7 and #8, roof repair at the wastewater treatment plant, increased sludge analysis and the City completed three capital projects. Also, the water main was looped to provide better fire protection to the hospital and medical clinics, the RBC units at the wastewater treatment plant were replaced before failure, and a new lift station was needed to provide sewer service to a new commercial area that was annexed to the City.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Ida Grove completed the year, its governmental funds reported a combined fund balance of \$1,021,621, a decrease of \$111,339 from last year's total of \$1,132,960. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS - (Continued)

The General Fund cash balance decreased \$111,548 from the prior year to \$393,149. This decrease was due primarily to financing capital projects with cash on hand in the general fund.

The Road Use Tax Fund, which accounts for monies received from the State of Iowa for road improvements, cash balance increased by \$63,530 to \$477,132 during the fiscal year because the City didn't do as much asphalt overlay street improvements which increased the carry over.

The Tax Increment Financing Fund, which accounts for projects financed by tax increment financing, cash balance decreased by \$16,257 to \$321,049.

The Capital Projects Fund, which accounts for various improvement projects within the City, cash balance decreased by \$72,528 to \$(309,876) primarily because two capital projects were completed and no new ones were started. The City completed the following projects - Zobel Seventh Addition, Water, and Sewer Extension to an annexed area.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance decreased by \$155,137 to \$77,761, due primarily to a capital project to loop a water main to provide better fire protection for the hospital and medical clinics.

The Sewer Fund, which accounts for the operation and maintenance of the City's sanitary sewer and wastewater treatment system, cash balance decreased by \$448,479 to \$(172,216) due primarily to two capital projects which were the RBC Replacement at the Wastewater Treatment Plant and the installation of the North Highway Lift Station to provide sewer service to a newly annexed area.

The Garbage Fund, which accounts for the operation of the City's solid waste collection and disposal system, cash balance increased by \$5,233 to \$62,780.

## BUDGETARY HIGHLIGHTS

For the year ended June 30, 2006, the City amended its budget one time. The amendment increased budgeted receipts by \$1,000 and increased budgeted disbursements by \$682,534. The increase in disbursements was necessary because a new lift station was needed to serve a new annexed area. An emergency occurred at the wastewater treatment plant when the rbs unit media broke loose and replacement of all the media was necessary. A major hospital expansion required the City to loop the water main for better fire protection. The fire department received monies for an accident with the fire truck and the truck was repaired.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$255,000 in bonds and other long-term debt, compared to \$330,000 last year, as shown below.

### Outstanding Debt at Year-End (Expressed in Thousands)

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
General obligation bonds	<u>\$255</u>	<u>\$330</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$255,000 is significantly below its constitutional debt limit of \$4.1 million.

## ECONOMIC FACTORS

The City Council took steps to develop a West Access into Ida Grove. Engineers were hired, and a location process was completed, to connect traffic from Highway 175/59 to Second and First Streets. This will help our community to add businesses and industry, and make it easier for customers and visitors to get to our downtown business district, and to the elevator. A new restaurant located on Highway 175/59. Federal funds were obtained through the Iowa Department of Transportation to replace the Rohwer Street Bridge, which is located on a farm to market road. The City completed the renovation of the interior of the water tower, which will help insure the community has safe drinking water.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Alborn, City Clerk, P.O. Box 236, Ida Grove, Iowa.

CITY OF IDA GROVE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Primary Government			Component Unit
					Governmental Activities	Business Type Activities	Total	
Functions/Programs:								
Primary government:								
Governmental activities:								
Public safety	\$ 280,524	\$ 146	\$ 16,589	\$ -	\$ (263,789)	\$ -	\$ (263,789)	\$ -
Public works	325,179	6,664	205,095	-	(113,420)	-	(113,420)	-
Health and social services	20,328	15,390	-	-	(4,938)	-	(4,938)	-
Culture and recreation	383,305	199,786	46,569	-	(136,950)	-	(136,950)	-
General government	188,092	12,356	3,142	-	(172,594)	-	(172,594)	-
Debt service	90,965	-	-	-	(90,965)	-	(90,965)	-
Capital projects	207,824	-	-	129,738	(78,086)	-	(78,086)	-
Total governmental activities:	1,496,217	234,342	271,395	129,738	(860,742)	-	(860,742)	-
Business type activities:								
Water	333,059	177,922	-	-	-	(155,137)	(155,137)	-
Sewer	608,909	160,430	-	-	-	(448,479)	(448,479)	-
Garbage	120,671	125,904	-	-	-	5,233	5,233	-
Utility deposits	4,710	5,010	-	-	-	300	300	-
Total business type activities	1,067,349	469,266	-	-	-	(598,083)	(598,083)	-
Total primary government	\$ 2,563,566	\$ 703,608	\$ 271,395	\$ 129,738	(860,742)	(598,083)	(1,458,825)	-
Component unit:								
Ida Grove Community Rec Center								
Endowment Trust	\$ 6,548	\$ -	\$ -	\$ -	-	-	-	(6,548)
General Receipts:								
Property tax levied for:								
General purposes					603,344	-	603,344	-
Tax increment financing					34,908	-	34,908	-
Utility excise replacement tax					38,309	-	38,309	-
Hotel-motel tax					6,439	-	6,439	-
Special assessments					578	-	578	-
Unrestricted interest on investments					50,381	-	50,381	8,533
Sale of assets					3,658	-	3,658	-
Miscellaneous					11,786	-	11,786	-
Total general receipts					749,403	-	749,403	8,533

(Continued)

CITY OF IDA GROVE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A  
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Primary Government		
					Governmental Activities	Business Type Activities	Component Total Unit
Change in cash basis net assets					\$ (111,339)	\$ (598,083)	\$ (709,422) \$ 1,985
Cash basis net assets beginning of year					<u>1,132,960</u>	<u>576,856</u>	<u>1,709,816</u> <u>232,349</u>
Cash basis net assets end of year					<u>\$ 1,021,621</u>	<u>\$ (21,227)</u>	<u>\$1,000,394</u> <u>\$ 234,334</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 477,132	\$ -	\$ 477,132 \$ -
Tax increment purposes					321,049	-	321,049 -
Debt service					82,241	-	82,241 -
Other purposes					57,926	-	57,926 -
Ida Grove Community Rec Center					-	-	-
Endowment Trust					-	-	-
Unrestricted					<u>83,273</u>	<u>(21,227)</u>	<u>62,046</u> <u>234,334</u>
Total cash basis net assets					<u>\$ 1,021,621</u>	<u>\$ (21,227)</u>	<u>\$1,000,394</u> <u>\$ 234,334</u>

See notes to financial statements.

CITY OF IDA GROVE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	Special Revenue					
	Tax					
	General	Road Use	Increment Financing	Capital Projects	Non Major	Total
Receipts:						
Property tax	\$ 493,909	\$ -	\$ -	\$ -	\$ 109,435	\$ 603,344
Tax increment financing	-	-	34,908	-	-	34,908
Other city tax	37,838	-	-	-	6,910	44,748
Licenses and permits	6,870	-	-	-	-	6,870
Use of money and property	63,353	-	-	-	-	63,353
Intergovernmental	24,523	196,755	-	70,470	-	291,748
Charges for service	203,660	-	-	-	-	203,660
Special assessments	-	-	-	578	-	578
Miscellaneous	72,763	-	-	59,248	-	132,011
Total receipts	<u>902,916</u>	<u>196,755</u>	<u>34,908</u>	<u>130,296</u>	<u>116,345</u>	<u>1,381,220</u>
Disbursements:						
Operating:						
Public safety	280,139	-	-	-	385	280,524
Public works	161,768	133,225	-	-	30,186	325,179
Health and social services	20,328	-	-	-	-	20,328
Culture and recreation	378,094	-	-	-	5,211	383,305
General government	172,793	-	-	-	15,299	188,092
Debt service	-	-	-	-	90,965	90,965
Capital projects	-	-	-	207,824	-	207,824
Total disbursements	<u>1,013,122</u>	<u>133,225</u>	<u>-</u>	<u>207,824</u>	<u>142,046</u>	<u>1,496,217</u>
Excess (deficiency) of receipts over disbursements	<u>(110,206)</u>	<u>63,530</u>	<u>34,908</u>	<u>(77,528)</u>	<u>(25,701)</u>	<u>(114,997)</u>
Other financing sources (uses):						
Sale of assets	3,658	-	-	-	-	3,658
Transfers in	-	-	-	5,000	51,165	56,165
Transfers out	(5,000)	-	(51,165)	-	-	(56,165)
Total other financing sources (uses)	<u>(1,342)</u>	<u>-</u>	<u>(51,165)</u>	<u>5,000</u>	<u>51,165</u>	<u>3,658</u>
Net change in cash balances	(111,548)	63,530	(16,257)	(72,528)	25,464	(111,339)
Cash balances beginning of year	<u>504,697</u>	<u>413,602</u>	<u>337,306</u>	<u>(237,348)</u>	<u>114,703</u>	<u>1,132,960</u>
Cash balances end of year	<u>\$ 393,149</u>	<u>\$ 477,132</u>	<u>\$ 321,049</u>	<u>\$ (309,876)</u>	<u>\$ 140,167</u>	<u>\$ 1,021,621</u>

(Continued)



CITY OF IDA GROVE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B  
(Continued)

	General	Special Revenue		Capital Projects	Non Major	Total
		Road Use	Tax Increment Financing			
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 393,149	\$ -	\$ -	\$ -	\$ -	\$ 393,149
Special revenue funds	-	477,132	321,049	-	57,926	856,107
Debt service	-	-	-	-	82,241	82,241
Capital project fund	-	-	-	(309,876)	-	(309,876)
Total cash basis fund balances	<u>\$ 393,149</u>	<u>\$ 477,132</u>	<u>\$ 321,049</u>	<u>\$ (309,876)</u>	<u>\$ 140,167</u>	<u>\$ 1,021,621</u>

See notes to financial statements.

CITY OF IDA GROVE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	Water	Sewer	Garbage	Non-Major Fund Utility Deposits	Total
Operating Receipts:					
Use of money and property	\$ 150	\$ -	\$ -	\$ -	\$ 150
Charges for service	177,486	160,268	125,904	-	463,658
Miscellaneous	<u>286</u>	<u>162</u>	<u>-</u>	<u>5,010</u>	<u>5,458</u>
Total operating receipts	177,922	160,430	125,904	5,010	469,266
Operating Disbursements:					
Business type activities	<u>333,059</u>	<u>608,909</u>	<u>120,671</u>	<u>4,710</u>	<u>1,067,349</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(155,137)</u>	<u>(448,479)</u>	<u>5,233</u>	<u>300</u>	<u>(598,083)</u>
Net change in cash balances	(155,137)	(448,479)	5,233	300	(598,083)
Cash balances beginning of year	<u>232,898</u>	<u>276,263</u>	<u>57,547</u>	<u>10,148</u>	<u>576,856</u>
Cash balances end of year	<u>\$ 77,761</u>	<u>\$(172,216)</u>	<u>\$ 62,780</u>	<u>\$ 10,448</u>	<u>\$ (21,227)</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ 77,761</u>	<u>\$(172,216)</u>	<u>\$ 62,780</u>	<u>\$ 10,448</u>	<u>\$ (21,227)</u>

See notes to financial statements.

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

I. Summary of Significant Accounting Policies

City of Ida Grove is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, general government, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Ida Grove has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City.

These financial statements present the City of Ida Grove (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Ida Grove Community Rec Center Endowment Trust was established as a non-profit trust in accordance with Section 450.4(2) of the Code of Iowa. The Trust is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Trust receives donations for maintaining and improving the facilities, programs, and physical plant of the Rec Center and Community building. These donations are to be used for items which are not included in the City's budget.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: Ida County Assessor's Conference Board, Ida County Public Safety and Communications Commission, and Ida County Landfill Commission.

Payments made to Ida County Public Safety and Communications Commission, and Ida County Landfill Commission during the year ended June 30, 2006 were \$234,147 and \$23,500, respectively.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

I. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. Summary of Significant Accounting Policies - (Continued)

B. Basis of Presentation - (Continued)

The Garbage Fund accounts for the operation and maintenance of the City's system of solid waste removal.

C. Measurement Focus and Basis of Accounting

The City of Ida Grove maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation, and business type activities functions.

2. Cash

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

3. Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 75,000	\$ 12,230
2008	80,000	8,750
2009	30,000	5,000
2010	35,000	3,500
2011	<u>35,000</u>	<u>1,750</u>
Total	<u>\$255,000</u>	<u>\$31,230</u>

4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$21,680, \$20,072, and \$18,186 respectively, equal to the required contributions for each year.

5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$15,241</u>

The liability has been computed based on rates of pay as of June 30, 2006.

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt service	Special Revenue:	
	Tax increment financing	\$51,165
Capital projects	General	<u>5,000</u>
		<u>\$56,165</u>

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

6. Interfund Transfers - (Continued)

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

7. Operating Lease

The City leases two John Deere mowers. Rental expense incurred for this lease was \$4,895 for the year ended June 30, 2006. There is no additional amounts payable under this operating lease.

8. Commercial Development Revenue Bonds

Commercial Development Revenue Bonds were issued July 1, 1984, for \$575,000, under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the revenue of the properties constructed and the bond principal and interest do not constitute liabilities of the City. The balance outstanding at June 30, 2006 was \$120,000.

9. Service Agreements

The City has an agreement with Ida County Sanitation, Inc. for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$119,331 for the year ended June 30, 2006.

10. Hospital Revenue Notes

The City has issued a total of \$8,860,000 of hospital revenue notes for Horn Memorial Hospital under the provisions of Chapter 419 of the Code of Iowa of which \$8,860,000 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the revenue of the hospital and the bond principal and interest do not constitute liabilities of the City.

11. Construction Contracts and Commitments

The City has entered into the following contracts which were not completed as of June 30, 2006.

<u>Projects</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-06</u>	<u>Remaining Commitment As of 6-30-06</u>
Engineering	\$114,468	\$112,552	\$ 1,916
RBC replacement	402,310	382,194	20,116
Wastewater improvement	68,131	52,321	15,810
Water tower renovation	35,850	-	35,850
Street improvements	77,399	-	77,399

The above costs will be paid from grant proceeds, issuance of general obligation bonds, and funds on hand.

CITY OF IDA GROVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

12. Risk Management

City of Ida Grove is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Deficit Fund Balance

The Capital Projects Funds, Forrest Avenue Improvement, West Access, Rohwer Street Bridge, Zobel's Seventh Addition, and TIF Urban Renewal; and the Enterprise Funds Water/Sewer Extension, Water Main Loop, RBC Replacement, and North Highway Lift Station had deficit balances of \$9,345, \$40,086, \$30,340, \$232,446, \$3,773, \$95,382, \$160,247, \$389,819, and \$64,592, respectively at June 30, 2006. These deficit balances are a result of project costs incurred prior to availability of funds. These deficit balances will be eliminated by special assessments, issuance of general obligation bonds, transfers from other funds, and receipt of grant funds.

14. Subsequent Event

In October, 2006, the City issued \$1,010,000 of general obligation bonds for various construction projects and to eliminate deficit fund balances in several funds.

15. Intergovernmental Agreement

The City entered into an agreement with Ida County to provide for the disposal of solid waste.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs to the County for compliance with these requirements have been estimated at \$536,116 according to the County's latest audit report available which was for the year ended June 30, 2005.

The County has begun to accumulate resources to fund these costs and, at June 30, 2005, assets of \$443,698 are restricted for these purposes.



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IDA GROVE  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		<u>Budgeted Amounts</u>		Final
	Funds	Funds		Original	Final	to
	Actual	Actual	Total			Total
						Variance
Receipts:						
Property tax	\$ 603,344	\$ -	\$ 603,344	\$ 580,660	\$ 580,660	\$ 22,684
Tax increment financing collections	34,908	-	34,908	33,871	33,871	1,037
Other city tax	44,748	-	44,748	38,309	38,309	6,439
Licenses and permits	6,870	-	6,870	7,855	7,855	(985)
Use of money and property	63,353	150	63,503	44,355	44,355	19,148
Intergovernmental	291,748	-	291,748	546,769	546,769	(255,021)
Charges for service	203,660	463,658	667,318	688,115	688,115	(20,797)
Special assessments	578	-	578	542	542	36
Miscellaneous	132,011	5,458	137,469	314,351	315,385	(177,916)
Total receipts	<u>1,381,220</u>	<u>469,266</u>	<u>1,850,486</u>	<u>2,254,827</u>	<u>2,255,861</u>	<u>(405,375)</u>
Disbursements:						
Public safety	280,524	-	280,524	299,582	300,616	20,092
Public works	325,179	-	325,179	440,960	440,960	115,781
Health and social services	20,328	-	20,328	21,350	21,350	1,022
Culture and recreation	383,305	-	383,305	346,735	346,735	(36,570)
General government	188,092	-	188,092	237,229	237,229	49,137
Debt service	90,965	-	90,965	91,265	91,265	300
Capital projects	207,824	-	207,824	628,900	1,310,400	1,102,576
Business type activities	-	1,067,349	1,067,349	535,918	535,918	(531,431)
Total disbursements	<u>1,496,217</u>	<u>1,067,349</u>	<u>2,563,566</u>	<u>2,601,939</u>	<u>3,284,473</u>	<u>720,907</u>
Deficiency of receipts over disbursements	(114,997)	(598,083)	(713,080)	(347,112)	(1,028,612)	(365,968)
Other financing sources, net	3,658	-	3,658	-	-	3,658
Balances, beginning of year	<u>1,132,960</u>	<u>576,856</u>	<u>1,709,816</u>	<u>1,168,715</u>	<u>1,168,715</u>	<u>541,101</u>
Balances, end of year	<u>\$ 1,021,621</u>	<u>\$ (21,227)</u>	<u>\$1,000,394</u>	<u>\$ 821,603</u>	<u>\$ 140,103</u>	<u>\$ 178,791</u>

See accompanying independent auditor's report.

CITY OF IDA GROVE  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$682,534. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation, and business type activities functions.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF IDA GROVE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 1

	<u>Special Revenue</u>			
	<u>Employee</u>	<u>Emergency</u>	<u>Debt</u>	
	<u>Benefits</u>	<u>Fund</u>	<u>Service</u>	<u>Total</u>
Receipts:				
Property tax	\$ 57,988	\$ 13,551	\$ 37,896	\$ 109,435
Other city tax	<u>3,692</u>	<u>863</u>	<u>2,355</u>	<u>6,910</u>
Total receipts	<u>61,680</u>	<u>14,414</u>	<u>40,251</u>	<u>116,345</u>
Disbursements:				
Public safety	385	-	-	385
Public works	30,186	-	-	30,186
Culture and recreation	5,211	-	-	5,211
General government	15,299	-	-	15,299
Debt service	-	-	90,965	90,965
Total disbursements	<u>51,081</u>	<u>-</u>	<u>90,965</u>	<u>142,046</u>
Excess (deficiency) of receipts over disbursements	<u>10,599</u>	<u>14,414</u>	<u>(50,714)</u>	<u>(25,701)</u>
Other financing sources:				
Transfers in	-	-	51,165	51,165
	<u>-</u>	<u>-</u>	<u>51,165</u>	<u>51,165</u>
Net change in cash balances	10,599	14,414	451	25,464
Cash balances beginning of year	<u>32,913</u>	<u>-</u>	<u>81,790</u>	<u>114,703</u>
Cash balances end of year	<u>\$ 43,512</u>	<u>\$ 14,414</u>	<u>\$ 82,241</u>	<u>\$ 140,167</u>
Cash Basis Fund Balances				
Unreserved:				
Special Revenue	\$ 43,512	\$ 14,414	\$ -	\$ 57,926
Debt service	-	-	82,241	82,241
Total cash basis fund balances	<u>\$ 43,512</u>	<u>\$ 14,414</u>	<u>\$ 82,241</u>	<u>\$ 140,167</u>

See accompanying independent auditor's report.

CITY OF IDA GROVE  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2006

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Hillcrest/Zoebel's 6th street improvements	May 1, 1998	4.30-4.50%	\$ 400,000	\$ 140,000	\$ -	\$ 45,000	\$ 95,000	\$ 6,165	\$ -
Airport improvement	October 11, 2000	5.00%	290,000	<u>190,000</u>	<u>-</u>	<u>30,000</u>	<u>160,000</u>	<u>9,500</u>	<u>-</u>
				<u>\$ 330,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 255,000</u>	<u>\$ 15,665</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF IDA GROVE  
BOND MATURITIES  
JUNE 30, 2006

Schedule 3

General Obligations Bonds

Year Ending <u>June 30,</u>	Airport Improvement Issued <u>October 11, 2000</u>		Hillcrest/Zoebel's 6th Street Improvement <u>Issued May 1, 1998</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2007	5.00%	\$ 30,000	4.40%	\$ 45,000	\$ 75,000
2008	5.00	30,000	4.50	50,000	80,000
2009	5.00	30,000	-	-	30,000
2010	5.00	35,000	-	-	35,000
2011	5.00	35,000	-	-	35,000
		<u>\$ 160,000</u>		<u>\$ 95,000</u>	<u>\$ 255,000</u>

See accompanying independent auditor's report.

CITY OF IDA GROVE  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

Schedule 4

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 603,344	\$ 537,045	\$ 542,175	\$ 485,730
Tax increment financing collections	34,908	99,718	96,850	183,235
Other city tax	44,748	41,729	38,314	40,097
Licenses and permits	6,870	9,008	6,369	2,190
Use of money and property	63,353	47,954	34,949	42,552
Intergovernmental	291,748	237,346	232,944	344,280
Charges for service	203,660	196,288	172,165	15,733
Special assessments	578	2,043	7,614	4,878
Miscellaneous	132,011	210,108	473,297	1,019,413
Total	<u>\$ 1,381,220</u>	<u>\$ 1,381,239</u>	<u>\$ 1,604,677</u>	<u>\$ 2,138,108</u>
Disbursements:				
Operating:				
Public safety	\$ 280,524	\$ 257,594	\$ 254,600	\$ 260,739
Public works	325,179	295,948	330,013	389,524
Health and social services	20,328	20,763	17,506	21,241
Culture and recreation	383,305	317,698	258,039	1,187,576
General government	188,092	180,540	173,439	161,296
Debt service	90,965	131,605	131,715	136,805
Capital projects	207,824	466,939	438,145	-
Total	<u>\$ 1,496,217</u>	<u>\$ 1,671,087</u>	<u>\$ 1,603,457</u>	<u>\$ 2,157,181</u>

See accompanying independent auditor's report.



HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Ida Grove, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Ida Grove, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 7, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ida Grove's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Ida Grove's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ida Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Ida Grove and other parties to whom City of Ida Grove may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Ida Grove during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Hunzelman, Putzier & Co.*

September 7, 2006

CITY OF IDA GROVE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

- I-A-06    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City Council holds an organizational meeting at the first meeting in January. At that time, the Council reviews the operational procedures so they can obtain maximum internal control. The financial reports are presented the first meeting of the month to the entire Council for their review and approval, which is an additional procedure to maintain maximum control. The Mayor or Mayor Pro Tem and the City Clerk or Deputy Clerk sign all checks. The individual preparing the deposits will not take the deposits to the bank. Other office staff will take the deposits to the bank. Cross training of the office staff has been instituted.

Conclusion - Response accepted.

- I-B-06    Fire Department and Centennial Commission Funds - The Fire Department and Centennial Commission currently maintain bank accounts which are not included in the City's financial records. These do not appear to be separate non-profit corporations, but may be departments of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted.

Response - The City provided the auditor's comments to the Fire Department Officers and the Centennial Commission and requested an annual budget and monthly receipt and disbursement reports from the Fire Chief, Treasurer, and the Chairman of the Centennial Commission to be included in the City's Budget. The Fire Department thought they were a 501(c)3 organization and the City Clerk researched that question and found they are not. The City has not received any of the items requested. The organizations will be contacted again to be included in the 2007-2008 budget.

Conclusion - Response accepted.

CITY OF IDA GROVE

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceed the amounts budgeted in the culture and recreation, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The final bills for flood damage were received and needed to be paid immediately so a claim could be made to FEMA for reimbursement before the deadline. This caused the City to exceed their budget in the culture and recreation function. The improvements made to the water and sewer plant had been budgeted in capital projects, but the disbursements were actually for business type activities.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-06 Business Transactions - We noted no business transactions between the City and City officials or employees.
- II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- II-H-06 Excess Balances - The following funds have balances at June 30, 2006 in excess of one year's expenditures:

Special Revenue - Tax Increment Financing - South  
                          - Tax Increment Financing - West  
                          - Road Use  
                          - Emergency Levy

CITY OF IDA GROVE

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-H-06 Excess Balances - (Continued)

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Tax Increment Financing - South - The City is continuing to pay the annual bond and coupon payments out of the monies in the account. The City also needs to have a .395% set aside for low and moderate-income projects because the area has upscale housing. During the next fiscal year we will be developing a program to benefit low and moderate-income families and begin to use the excess balance.

Tax Increment Financing - West - The City is continuing to pay the annual bond and coupon payments out of the monies in the account and when the issue is complete the monies should be depleted.

Road Use Tax - The City is in the process of replacing the Rohwer Street Bridge and will be paying twenty percent (20%) of the cost from City funds, and will be using Road Use Tax monies for the City's share.

Emergency Levy - This balance was transferred to the General Fund in July, 2006.

Conclusion - Response accepted.

II-I-06 Financial Condition - At June 30, 2006 the City had deficit balances in the Forrest Avenue Improvement, West Access, Rohwer Street Bridge, Zobel's Seventh Addition, TIF Urban Renewal, Water/Sewer Extension, Water Main Loop, RBC Replacement, and North Highway Lift Station funds of \$9,345, \$40,086, \$30,340, \$232,446, \$3,773, \$95,382, \$160,248, \$389,819 and \$64,592, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Response - The City sold bonds for \$1,010,000 in August of 2006, with October delivery. This cleared the deficit balance in the following funds: Zobel's Seventh Addition, Water and Sewer Extension, Water Main Loop, RBC Replacement, and North Highway Lift Station. Forrest Avenue was a special assessment project and monies are still being received from property owners. The Council plans to transfer funds for the deficit balance. The West Access is a new project and the City was in the process of deciding on a location. This will be moving into a capital project fund for 2007-2008. The Rohwer Street Bridge Replacement Project is a federal bridge project and the City will receive 80% of the cost from the Iowa Department of Transportation. The City's 20% could be transferred from the Road Use Tax Fund to decrease the excess balance. The TIF Urban Renewal deficit will be cleared by a transfer from the General Fund.

Conclusion - Response accepted.